

CRITICAL SUCCESS FACTORS (CSF) OF ZAKAH-FINANCED SMALL- SCALE ENTREPRENEURS (ZFSE): MALAYSIAN EXPERIENCE

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ABSTRACT

Critical Success Factor (CSF) is a term for an element necessary for an organization or a project to achieve its mission. It is a critical factor, or the activities required to ensure the success of an organisation or a project. The CSF analysis will come out with a list of factors that are critical to the organization and the project to be successful. This paper will discuss on critical success factors of *zakah*-financed small- scale entrepreneurs (ZFSE) in Malaysia. A study was conducted to identify the critical success factors of these ZFSE projects carried out by most of the *zakah* centres in Malaysia. Interviews with the successful entrepreneurs were carried out to get micro level information. In addition, interviews with the management of states' *zakah* management centre in Malaysia had also been undertaken to seek views and information from them. Based on the experience of successful *zakah*-financed entrepreneurs, the critical success factors were identified and analysed in terms of their contribution in influencing the success of the business. As a result, the study has identified list of critical success factors that are most crucial to ensure the success of the ZFSE projects. This paper will discuss on these findings that can serve as a guideline to the other entrepreneurs, as well as the *zakah* centres and other relevant institutions in Malaysia.

Keywords: Islamic economics, Critical success factor (CSF), zakah institution, micro finance, entrepreneurship.

Introduction

As a member of the United Nations (UN), Malaysia is bound by a declaration signed by all members towards the 21st century in order to achieve the goals known as the Millennium Development Goals (MDGs). There are eight goals listed in this MDG. The first goal is to

eradicate extreme poverty and hunger. Of the 6 billion world population, almost half of them, a total of 2.8 billion live on \$ 2 a day. While 1.2 billion still live with an income of less than \$ 1 a day. Accordingly, the MDG targets that the number of victims of poverty and hunger will be reduced by half by 2015.

Poverty eradication has been one of the main strategies in Malaysia's development policies beginning from the New Economic Policy (1971-1990). Various programs and poverty reduction strategies have been implemented by the government. Various agencies have also been established to help the government to address the problems of poverty. Malaysia's commitments in anti-poverty programs are very encouraging. Of the 49.3% poverty rate in Malaysia in 1971, this rate has been very much reduced to only 3.8% in 2009. The incidence of hardcore poor also fell to 0.7% in 2009. The Government is committed to eliminate poverty, especially the extreme poor by the end of 2010 (Ninth Malaysia Plan, 2006-2010).

With the introduction of New Development Policy in the Second Outline Perspective Plan of 1991-2000, the government has started to recognize and utilized the potential contribution of Islamic institutions in helping the poor Muslim and hence eradicating poverty among the Muslim society. From then on, the institutions *zakah*, waqf and baitulmal started to play important and active role for the development of the Muslim society, especially as poverty eradication mechanism. The most active is the *zakah* institution, which provides productive *zakah* distribution to the poor and needy. Among the types of productive *zakah* assistance is in a form of micro finance to the small scale entrepreneurs from the poor and hardcore poor categories of *zakah* recipients (*asnaf*). Unfortunately, the successful rate of this program is only less than 30 percent. There are some critical success factors need to be overcome in order for the program to be successful.

Critical Success Factors (CSF) is the term for an element that is necessary for an organization or project to achieve its mission. It is a critical factor or activity required to ensure the success of the company or organization. By definition, critical success factors (CSF) means some small number of operational goals that can be easily identified, formed by the firm, managers and wider surroundings which is believed to guarantee the success of any organization. The term was first used in the data analysis and business analysis. Critical Success Factors are some things that are necessary to ensure success for a manager or organization. They represent the management or enterprise, which should be given special attention to lead to high performance. The concept of "critical success factors" was developed by D. Ronald Daniel McKinsey & Company in 1961. This process has been refined further by Jack F. Rockart in 1981. In 1995, James A. Johnson and Michael Friesen extend to many other sectors, including health care. For Licker (1997), the CSF analysis begins with a list of the factors critical to an organization's success. These factors will be analyzed in terms of its contribution to the information in making decisions to achieve the critical success factors.

Mensing and Adams (1991) stated that one way to make strategic planning is to identify the factors that are very important for success of the company. They named the CSF as Key Success Factors (KSF). These factors will be monitored and strategic goals can be determined for each critical success factors above. According to Lu, Shen and Yam (2008), to identify critical success factors (CSF) allows one to reduce the large number of factors to only a few factors that can be managed (a little) but important.

The main purpose of this paper is to identify critical success factors of the *zakah*-financed small-scale entrepreneurs (ZFSE) in Malaysia.. A study was conducted to identify the critical success factors of these ZFSE projects carried out by most of the *zakah* centres in Malaysia. Interviews with the successful entrepreneurs were carried out to get micro level information. Based on the experience of successful *zakah*-financed entrepreneurs, the critical success factors were identified and analysed in terms of their contribution in influencing the success of the business.

Methodology

This study examines the critical success factors that need to be addressed by the *zakah*-financed small-scale entrepreneurs (ZFSE) from the poor and needy recipients to get out of poverty through zakat distribution. Therefore, the population of this research is of *zakah*-financed small-scale entrepreneurs (ZFSE) in Malaysia. The study was conducted in all of the states in Malaysia. Interviews were conducted with 28 respondents who are among the small numbers of successful ZFSE. Sample selection is done by the states *zakah* center based on purposive sampling technique. Open ended interviews are carried out to encourage respondents to share their experience. Descriptive analysis is done to get the research findings.

Results and Discussion

The main objective of the research is to identify the critical success factors of the *Zakah*-financed small scale entrepreneurs. This part will present the findings of the study from micro-level information that is based on the interview with the successful ZSFE of all states in Malaysia. Interview with all of the top level management of the *zakah* institution in Malaysia in this study revealed that the successful rate of this program is very low, which is less than 30 percent.

Respondent's Profile

A total number of respondent is 28, on which 10 (37 percent) of them are male, and 18 (63 percent) are female. 57 percent of the respondents received monthly income range between RM 501- RM 2000, 28 percent received RM 2001 and above, and 15 percent are of hardcore poor, receiving income less than RM500 per month. This indicates that majority of the ZFSE are of the poor and the vulnerable group of poverty (57 percent), entitled for *zakah* assistance.

Research findings

Based on the open ended interviews with successful ZFSEs, this research has identified the most critical success factors contribute to the success of the business. According to the respondents 65.6 percent of the the most critical success factors lies on the attitude of the recipients themselves. The recipients must have positive attitude in terms of discipline, hardworking, honesty, patience, and creativity. The next critical success factor lies on the human resource physical capability of the entrepreneurs, or human resource problems. 18.8 percent of the CSF are due to this issue. The human resource problems inclusive of lack of training, lack of facilities, business lot and wrong technique and business strategies. The rest 15.6 percent of the critical success factors are of the external factors. This include the support, opinion, encouragement and

monitoring from the family and the *zakah* institution itself. (See the following table 1 for reference).

Table 1
Critical Success factors of the *Zakah*-Financed Small Scale Entrepreneurs (ZFSEs)

No.	Critical Success Factors	Percentage
1.	Attitude	65.6
2.	Human Resource Physical Capability	18.8
3.	External factors	15.6

Findings of the study shows that the most critical success factors of the ZFSEs are the attitude of the entrepreneurs themselves. It means that success comes from within. The entrepreneurs have to overcome their negative attitude problems. They need to educate and equipped themselves with all the positive mental and attitude prior to success.

Lack of human resource physical capability can be tackled by attending courses on business skill, training and human development program. The entrepreneurs need to increase their knowledge on business and business management. This will provide them with the knowledge and ability to handle their business. With a good knowledge and management of their business will lead them to success.

The external factors, although it is at the least of importance, still contribute to the success of the entrepreneurs. This finding says that support system is important for the success of the entrepreneurs. The whole support system which includes the family, friends, neighbors, relevant agencies need to be understanding, cooperative and supportive to the entrepreneurs. These could be a good motivation for the entrepreneurs to ensure their success.

Conclusion

Success comes from within. If one to be success, he has to have a positive attitude. This is proven from the study which says that 65.6 percent of the critical success factors are of this issue. Therefore, it is important for the financing agency, in this case the *zakah* institution to tackle this issue before lending the financial assistance. After polishing the attitude through human development programs for example, then only the success will appear. This is the conclusion of the study.

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